

AD Plastik

Hold

Maintained

Price: HRK 184
Price target: HRK 203
(From HRK 147)

The worst is over, but outlook still uncertain

Following the 2020 full results release, on 17 February, we have updated our model and increased our 12M price target (PT) for AD Plastik to HRK 203/share (from HRK 147). The higher valuation is driven mainly by the company's flexible cost control and improving sales figures, but also the clearer outlook for the industry, its decision to pay a dividend this year, and higher peer multiples. We believe the risk of shutting down plants is limited currently, but we note that some risks, which are outside the company's control, related to the pandemic, are ongoing. We are particularly uncertain about the form of the market rebound this year and we do not have the company's 2021E guidance yet. By proposing to pay a dividend, however, AD Plastik is showing confidence, in our view, and we see the company as a solid investment going forward. After the recent rally, which we see as justified, we maintain our HOLD rating on AD Plastik, with 10% upside to the current price.

Solid financial outlook. Last year, AD Plastik's sales and profitability surprised us on the upside. The full-year numbers were also above the company's guidance, thanks mainly to the strong last quarter. In addition, it generated solid FCF and managed to reduce its net debt. Despite the sales improvements, we note that the 2020 EBITDA was also supported by one-offs (the Makarska real estate sale and state aid), which are unlikely to be repeated this year. Therefore, we remain cautious and forecast only an 11.3% EBITDA margin in 2021E, slightly above our estimate for last year.

Rebound in sales expected. European PC sales dropped 24% in 2020 and 9% in Russia. This year, the European Automobile Manufacturers Association (ACEA) sees 10% growth in the EU; while the general consensus expects single-digit growth in Russia. Last year, AD Plastik showed it can outperform the market, which we also expect in 2021E, with EU+Serbia sales +11% yoy and Russia +9% yoy. With higher utilisation, on the back of increasing demand, we forecast the company's EBITDA margin to improve above 13% in 2022E.

Deal pipeline sufficient for future growth. In 2020, AD Plastik added deals worth EUR 45m in Europe and EUR 85m in Russia. Some of the previous ones have been shifted forward, but it is either delivering parts for older models or is being compensated by different orders from the manufacturers. We look forward to new deal additions, but believe that AD Plastik is likely to remain busy in the coming years, even if only thanks to its current contracts.

Surprise dividend this year. Versus our expectations, and the company's communication in 2020, the board is proposing a payout of HRK 8/share (a 4.3% yield) this year. It created a provision of HRK 12.3m in 4Q20, as part of the state aid will be returned, but we believe the market liked the news, overall, and that AD Plastik is indicating that it wants to remain a consistent dividend payer and feels comfortable doing so, despite the pandemic headwinds.

Valuation and risks. We have increased our EBITDA estimates slightly, based on the solid performance and improving outlook, with 2021-22E P/Es of 11.2-7.5x and EV/EBITDAs of 7.1-5.4x, below its peers, on average. Our valuation, based on our DCF SOTP and peer multiples (80:20), yields 10% upside. **The risks include:** weaker PC registrations than expected; pandemic-related risks; FX risks, namely on its debt; or its heavy dependence on one customer, Renault.

Expected events

Extraordinary board meeting	17 March
1Q21 results	26 April

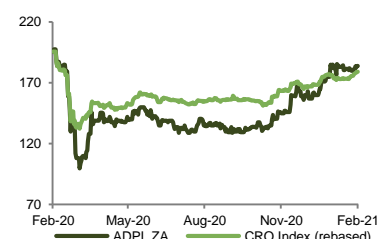
Key data

Market Cap	EUR 102m
Free float	67%
3M ADTV	EUR 40k
Shares outstanding	4.2m
Major Shareholder	OAD Holding, 30%
Bloomberg Code	ADPL ZA
CRO Index	1,849

Price performance

52-w range	100-198
52-w performance	-6%
Relative performance	3%

AD Plastik 12M share price performance



HRK m	Sales	EBITDA	Net Profit	EPS (HRK)	P/E (x)	EV/EBITDA (x)	P/BV (x)	Div. yield	DPS (HRK)
2018	1,321	162	89	21.3	7.6	6.6	0.9	6.2%	10.0
2019	1,542	197	93	22.2	8.4	6.3	0.9	6.6%	12.3
2020	1,230	167	53	12.7	12.6	6.1	0.8	2.5%	4.0
2021E	1,361	153	69	16.4	11.2	7.1	0.8	4.3%	8.0
2022E	1,476	199	103	24.5	7.5	5.4	0.8	8.0%	14.7
2023E	1,539	207	112	26.6	6.9	5.3	0.8	10.1%	18.6

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Closing Prices as of 19 February 2021

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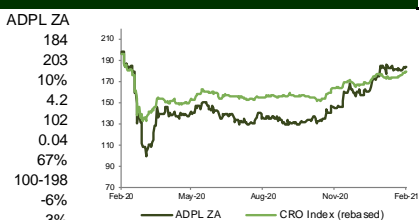
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Company snapshot – HOLD, PT HRK 203

AD Plastik

HOLD

Bloomberg ticker	ADPL ZA
Closing price (HRK)	184
Price target (HRK)	203
Upside to PT	10%
Shares outstanding (m)	4.2
Mcap EUR (m)	102
3M ADTV (EUR ths)	0.04
Free float	67%
52 Week Range	100-198
52W performance	-6%
Relative performance	3%



COMPANY DESCRIPTION

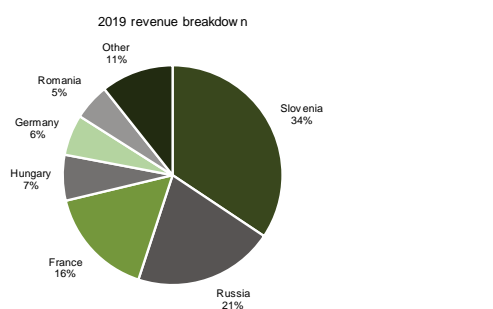
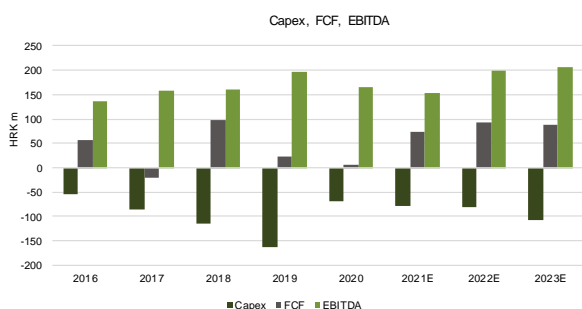
AD Plastik is an auto parts manufacturer, producing mainly interior and exterior plastic car components. The company has been present in the business for almost three decades, but traces its roots back to 1952. Over the years, AD Plastik has grown its exposure to 20 countries on five continents, with subsidiaries in five countries. The company has dozens of long-term agreements with many major automotive companies, and a strong pipeline of deals ahead. In the past five years, AD Plastik has managed to secure deals with international partners, valued at almost EUR 700m, driving its revenues and net profit to record levels last year. Despite the accelerating capex in recent years and the hard hit from the pandemic, AD Plastik has managed to control its costs and reduced its debt, and now proposes to pay out a generous dividend, with improving prospects for the industry.

RATIOS

PER SHARE RATIOS	2017	2018	2019	2020	2021E	2022E	2023E	VALUATION RATIOS	2017	2018	2019	2020	2021E	2022E	2023E
EPS	16.7	21.3	22.2	12.7	16.4	24.5	26.6	P/E	8.8x	7.6x	8.4x	12.6x	11.2x	7.5x	6.9x
BVPS	178.5	186.7	208.6	209.4	217.9	227.7	235.6	P/CF	8.2x	4.3x	6.5x	5.2x	8.3x	7.9x	7.2x
DPS	8.5	10.0	12.3	4.0	8.0	14.7	18.6	P/BV	0.8x	0.9x	0.9x	0.8x	0.8x	0.8x	0.8x
FINANCIAL RATIOS	2017	2018	2019	2020	2021E	2022E	2023E	EV/EBITDA	6.0x	6.6x	6.3x	6.1x	7.1x	5.4x	5.3x
EBITDA margin	14.5%	12.2%	12.8%	13.5%	11.3%	13.5%	13.5%	EV/Sales	0.9x	0.8x	0.8x	0.8x	0.8x	0.7x	0.7x
EBIT margin	6.9%	5.4%	5.6%	5.6%	4.5%	7.1%	7.1%	EV/EBIT	12.6x	15.0x	14.2x	14.6x	17.8x	10.3x	10.1x
Net margin	6.4%	6.8%	6.1%	4.3%	5.1%	7.0%	7.3%	FCF, HRK m	-21	98	22	6	74	94	88
ROE	9.4%	11.4%	10.6%	6.1%	7.5%	10.8%	11.3%	FCF yield	-3.4%	14.6%	2.8%	0.9%	9.6%	12.2%	11.4%
ROIC	6.1%	6.3%	5.1%	5.3%	4.4%	6.9%	6.8%	Dividend yield	5.8%	6.2%	6.6%	2.5%	4.3%	8.0%	10.1%
ROA	5.2%	5.7%	5.5%	3.4%	4.3%	6.3%	6.6%	Payout ratio	71%	59%	58%	18%	63%	90%	76%
Net debt/EBITDA	2.12x	2.41x	2.28x	2.04x	2.03x	1.53x	1.55x								
Total debt/Equity	46.2%	54.3%	53.7%	45.3%	41.1%	38.6%	36.7%								

COMPANY FINANCIALS

INCOME STATEMENT, HRK m	2017	2018	2019	2020	2021E	2022E	2023E	BALANCE SHEET, HRK m	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	1,090	1,321	1,542	1,230	1,361	1,476	1,539	Fixed Assets	919	1,002	1,105	999	1,049	1,048	1,045
Cost of Raw Materials	-61	-103	-171	-60	-132	-148	-154	Intangible assets	105	111	105	85	82	74	65
Cost of Goods Sold	-546	-663	-731	-603	-630	-689	-718	Property, plant and equipmer	650	709	787	842	907	911	913
Gross profit	482	555	640	568	599	640	667	Investments in associates	97	92	93	71	74	77	80
Operating expenses	-324	-393	-443	-401	-446	-441	-460	Other	67	90	121	0	-14	-14	-14
EBITDA	158	162	197	167	153	199	207	Current Assets	433	565	596	556	540	597	644
Depreciation	-83	-91	-110	-97	-93	-94	-98	Inventories	155	231	207	179	178	194	207
EBIT	75	71	87	69	61	104	109	Trade receivables	199	219	270	271	249	272	289
Profit from Associates	56	50	41	19	27	29	33	Cash and cash equivalents	10	36	27	63	68	70	46
Net financial income	-52	-34	-14	-31	-11	-12	-10	Other	69	79	92	44	46	60	103
Profit Before Tax	79	87	114	58	77	121	131	Total assets	1,351	1,567	1,701	1,555	1,589	1,645	1,689
Taxes	-9	3	-20	-5	-8	-18	-20	Current Liabilities	394	501	576	467	476	491	501
Net Income	70	89	93	53	69	103	112	Short Term Borrowing	142	148	232	213	200	194	188
CASH FLOW, HRK m	2017	2018	2019	2020	2021E	2022E	2023E	Payables	173	224	237	160	178	194	207
CF from Operations	75	157	120	130	94	97	108	Other	79	129	106	94	98	103	107
Thereof depreciation	83	91	110	97	93	94	98	LT Liabilities	810	1,064	1,075	883	872	887	897
Thereof changes in w/c	-88	33	-29	-82	-10	-22	-16	LT Loans	204	278	238	185	175	175	175
CF from Investments	23	-117	-107	-1	-31	-27	-49	Other LT liabilities	4	4	12	23	23	23	23
Thereof CAPEX	-86	-115	-162	-68	-78	-82	-106	Total Liabilities	602	783	825	675	674	689	699
Thereof Dividends Received	42	54	40	41	19	27	29	Minority Interest	0	0	0	0	0	0	0
CF from Financing	-99	-14	-22	-94	-56	-68	-84	Shareholders' Equity	750	784	876	880	915	956	990
Thereof Dividends Paid	-35	-41	-52	-17	-34	-62	-78	Total Liabilities and Equity	1,351	1,567	1,701	1,555	1,589	1,645	1,689
Thereof Proceeds From Loans	-60	39	40	0	-23	-6	-6								
Cash Movement	0	26	-9	35	6	2	-25	Net debt	336	389	451	340	312	303	322



Valuation

We have increased our 12M PT from HRK 147/share to HRK 203/share, implying 10% upside, and we maintain our HOLD recommendation on the stock. We use a SOTP valuation for AD Plastik and its 50% stake in the Euro APS (EAPS) JV, using a five-year DCF for both. Then, as a sanity check for the first approach, we use a peer valuation. We assign an 80% weight to our DCF SOTP and 20% to our peer valuation.

Valuation summary

HRK m	HRK/share	Upside
DCF	191	4%
Peers	247	34%
EV/EBITDA	205	11%
P/E	289	57%
Weighted average (80 DCF: 20 peers)	203	10%

Source: WOOD Research

DCF SOTP

Through our DCF analysis, we value the businesses consolidated under AD Plastik at HRK 135/share. To this, we add the equity value of EAPS, in which AD Plastik holds 50%, and which is booked as an equity investment. This adds HRK 64/share to our PT. After adjusting for the COE, we arrive at a 12M PT of HRK 191/share, or 4% upside.

DCF: AD Plastik

Our assumptions are:

- ✓ A cost of equity of 15.5% (down from 16.9%), a beta of 1.5x (down from 1.7x, derived from Damodaran and adjusted for debt), and an equity risk premium (ERP) of 7%. We have adjusted our regular ERP for Croatia upwards, by 2%, to account for the stock's low liquidity (unchanged).
- ✓ A cost of debt of 3.2% (down from 4%) and a tax rate of 18% (unchanged), to remain on the conservative side.
- ✓ This produces a WACC of 12.3-12.6% for our forecast period, up from 11.7-11.9%, previously, due to the lower debt weight.
- ✓ We use a 2% terminal growth rate, and expect the Russian market to outperform the EU+Serbia region in the long term.

DCF: AD Plastik

HRK 000s	2021E	2022E	2023E	2024E	2025E
EBIT	60,870	104,153	108,553	110,550	112,461
Taxes	-4,942	-13,767	-14,717	-18,037	-18,402
NOPAT	55,928	90,385	93,836	92,513	94,059
Depreciation	92,559	94,481	98,479	100,300	102,041
Change in net working capital	-9,650	-21,889	-15,811	-8,096	-4,957
Capex	-77,779	-81,668	-106,168	-111,477	-112,591
FCF	80,358	125,088	101,958	89,433	88,466
Discount factor	0.91	0.81	0.72	0.63	0.56
PV of FCF	72,777	100,806	73,058	56,783	49,781
Sum of NPV of FCF	353,205				
Terminal growth rate	2%				
Terminal value	480,216				
Enterprise value	833,420				
Net Debt, 2020A	340,212				
Minorities	0				
Fair value of equity excluding EAPS	493,208				
per share	117				
Ent. value of 50% stake in EAPS using FCFF	229,660				
EAPS value per share	55				
Fair value of equity with JV	722,869				
Fair value of equity per share	172				
12M PT	191				
<i>Upside potential</i>	<i>4%</i>				

Source: Company data, WOOD Research

WACC calculation: AD Plastik

	2021E	2022E	2023E	2024E	2025E
Risk-free rate	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.5	1.5	1.5	1.5	1.5
Equity risk premium	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of equity	15.5%	15.5%	15.5%	15.5%	15.5%
Cost of debt	3.2%	3.2%	3.2%	3.2%	3.0%
Tax rate	18.0%	18.0%	18.0%	18.0%	18.0%
Effective cost of debt	2.6%	2.6%	2.6%	2.6%	2.5%
Weight of debt	32.7%	32.3%	32.0%	31.0%	30.1%
Weight of equity	67.3%	67.7%	68.0%	69.0%	69.9%
WACC	12.3%	12.3%	12.4%	12.5%	12.6%

Source: WOOD Research

DCF: EAPS business

EAPS is an important value driver for the whole group. The company is booked under equity investments, being consolidated by Faurecia. We use a DCF model to estimate the JV's value, which we then adjust for AD Plastik's 50% stake. We arrive at HRK 55/share for AD Plastik's 50% share in the company, or HRK 64/share, after adjusting for the COE.

Our assumptions are:

- ✓ A cost of equity of 17.8%, down from 18.6%, using a RFR of 5%, an equity risk premium of 8% and a beta of 1.6x, down from 1.7x.
- ✓ A cost of debt of 6% and a tax rate of 16%.
- ✓ This produces a WACC of 17.8%, down from 18.6% for our forecast period, as EAPS has no debt.
- ✓ We use a 2% terminal growth rate.

DCF: EAPS

HRK 000s	2021E	2022E	2023E	2024E	2025E
Revenues	639,405	690,558	718,180	732,544	747,195
EBITDA	86,930	93,885	103,836	105,913	108,031
Profit	54,340	58,754	66,343	67,686	69,057
EBIT	65,690	70,946	79,979	81,579	83,211
Taxes	-10,350	-11,191	-12,637	-12,893	-13,154
NOPAT	55,340	59,754	67,343	68,686	70,057
Depreciation, capex, and change in W/C	-4,957	-3,514	-2,734	-2,329	-1,915
FCFF	50,383	56,241	64,609	66,358	68,142
	0.85	1.85	2.85	3.85	4.85
Discount factor	0.87	0.74	0.63	0.53	0.45
PV of FCFF	43,799	41,504	40,475	35,289	30,762
Sum of NPV of FCFF	191,829				
Terminal growth rate	2%				
Terminal value	198,591				
Net cash	68,900				
Equity value	459,320				
50% stake	229,660				
HRK per AD Plastik share	55				

Source: Company data, WOOD Research

WACC calculation: EAPS

	2021E	2022E	2023E	2024E	2025E
Risk-free rate	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.6	1.6	1.6	1.6	1.6
Equity risk premium	8.0%	8.0%	8.0%	8.0%	8.0%
Cost of equity	17.8%	17.8%	17.8%	17.8%	17.8%
Cost of debt	6.0%	6.0%	6.0%	6.0%	6.0%
Tax rate	16.0%	16.0%	16.0%	16.0%	16.0%
Effective cost of debt	5.0%	5.0%	5.0%	5.0%	5.0%
Weight of debt	0.0%	0.0%	0.0%	0.0%	0.0%
Weight of equity	100.0%	100.0%	100.0%	100.0%	100.0%
WACC	17.8%	17.8%	17.8%	17.8%	17.8%

Source: WOOD Research

Peer group comparisons

Our peer valuation, which uses an equal weight for the 2021-22E EV/EBITDA and P/E multiples, results in a 12M PT of HRK 247/share, offering 34% upside. On our 2021-22E P/Es, AD Plastik trades at 11.2-7.5x, offering 57% average upside. Our 2021-22E EV/EBITDAs of 7.1-5.4x, which we adjust for EAPS' 50% share in EBITDA and net cash, offer upside of 11%.

EV/EBITDA

HRK m	2021E	2022E
Peer multiple	5.6	4.7
EBITDA	197	246
Net debt	277	269
Equity value	830	890
Average	860	
HRK/share	205	
Upside	11%	

Source: Bloomberg, WOOD Research

P/E

HRK m	2021E	2022E
Peer multiple	17.1	12.2
Net profit	69	103
Equity value	1,176	1,253
Average	1,214	
HRK/share	289	
Upside	57%	

Source: Bloomberg, WOOD Research

Model update

We have increased our revenue estimates slightly, based on the 2020 beat, as well as the clearer outlook for the company this year. Our higher EBITDA expectations are driven by increased sales, but also by the company's flexible cost control, which was shown last year. Aside from the above, our net profit estimates are driven by the better EAPS outlook and lower net debt vs. our September expectations.

Changes in forecasts

HRK m	Old			New			Change		
	2020E	2021E	2022E	2020A	2021E	2022E	2020	2021E	2022E
Revenues	1,192	1,354	1,468	1,230	1,361	1,476	3%	1%	1%
EBITDA	138	143	189	167	153	199	21%	7%	5%
Net profit	31	40	80	53	69	103	72%	72%	29%

Source: Company data, WOOD Research

Financials

Income statement

HRK m	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	1,090	1,321	1,542	1,230	1,361	1,476	1,539
Cost of raw materials	-61	-103	-171	-60	-132	-148	-154
Cost of goods sold	-546	-663	-731	-603	-630	-689	-718
Gross profit	482	555	640	568	599	640	667
Operating expenses	-324	-393	-443	-401	-446	-441	-460
EBITDA	158	162	197	167	153	199	207
Depreciation	-83	-91	-110	-97	-93	-94	-98
EBIT	75	71	87	69	61	104	109
Profit from associates	56	50	41	19	27	29	33
Net financial income	-52	-34	-14	-31	-11	-12	-10
Profit before tax	79	87	114	58	77	121	131
Taxes	-9	3	-20	-5	-8	-18	-20
Net income	70	89	93	53	69	103	112

Source: Company data, WOOD Research

Balance sheet

HRK m	2017	2018	2019	2020	2021E	2022E	2023E
Fixed assets	919	1,002	1,105	999	1,049	1,048	1,045
Intangible assets	105	111	105	85	82	74	65
Property, plant and equipment	650	709	787	842	907	911	913
Investments in associates	97	92	93	71	74	77	80
Other	67	90	121	0	-14	-14	-14
Current assets	433	565	596	556	540	597	644
Inventories	155	231	207	179	178	194	207
Trade receivables	199	219	270	271	249	272	289
Cash and cash equivalents	10	36	27	63	68	70	46
Other	69	79	92	44	46	60	103
Total assets	1,351	1,567	1,701	1,555	1,589	1,645	1,689
Current liabilities	394	501	576	467	476	491	501
Short-term borrowing	142	148	232	213	200	194	188
Payables	173	224	237	160	178	194	207
Other	79	129	106	94	98	103	107
Long-term liabilities	810	1,064	1,075	883	872	887	897
Long-term loans	204	278	238	185	175	175	175
Other long-term liabilities	4	4	12	23	23	23	23
Total liabilities	602	783	825	675	674	689	699
Minority interest	0	0	0	0	0	0	0
Shareholders' equity	750	784	876	880	915	956	990
Total liabilities and equity	1,351	1,567	1,701	1,555	1,589	1,645	1,689
Net debt	336	389	451	340	312	303	322

Source: Company data, WOOD Research

Cash flow statement

HRK m	2017	2018	2019	2020	2021E	2022E	2023E
Cash flow from operations	75	157	120	130	94	97	108
o/w depreciation	83	91	110	97	93	94	98
o/w changes in w/c	-88	33	-29	-82	-10	-22	-16
Cash flow from investments	23	-117	-107	-1	-31	-27	-49
o/w capex	-86	-115	-162	-68	-78	-82	-106
o/w dividends received	42	54	40	41	19	27	29
Cash flow from financing	-99	-14	-22	-94	-56	-68	-84
o/w dividends paid	-35	-41	-52	-17	-34	-62	-78
o/w net proceeds from loans	-60	39	40	0	-23	-6	-6
Cash movements	0	26	-9	35	6	2	-25

Source: Company data, WOOD Research

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